



## **AUDIT COMMITTEE**

AGENDA FOR

**September 28, 2011**

**10:30 a.m.**

**General Manager's Conference Room**

Hershell Price – Chair	Howard Williams
Kenneth Williams – Vice Chair	Doug Wilson
Ralph McIntosh	

1. Roll call – determination of quorum.
2. Public comment – opportunities for members of the public to address the Committee on matters within the Committee's jurisdiction.
3. Chair's report.  
4-A Directors' comments.
4. Adopt Audit Committee Minutes from April 27, 2011 meeting.

### **I. CONSENT CALENDAR**

### **II. ACTION/DISCUSSION**

1. Approve the Auditor Selection Committee's recommendation of McGladrey & Pullen, LLP (MP) for auditing services for a five-year period (audit years 2012-2016) for a not-to-exceed amount of \$427,650, and direct staff to prepare an action item for consideration of the Board at its regular meeting in October.

Auditor Selection Committee's Recommendation: To approve the recommendation of MP as the Water Authority's and QSA JPA's independent auditors. To authorize staff to prepare a contract approval memo from the Audit Committee for the October 27, 2011 Board meeting to authorize the General Manager to enter into an agreement with MP, for independent audits for a five-year period from April 1, 2012 through March 31, 2017, for a not-to-exceed amount of \$427,650. (Action)



**San Diego County Water Authority**

2. Approve the Auditor Selection Committee's recommendation of Lance, Soll and Lunghard, LLP (LSL) for agreed-upon procedures (AUP) services for a five-year period (audit years 2012-2016) for a not-to-exceed amount of \$291,605, and direct staff to prepare an action item for consideration of the Board at its regular meeting in October.

Auditor Selection Committee's Recommendation: To approve the recommendation of LSL as the Water Authority's AUP service provider. To authorize staff to prepare a contract approval memo from the Audit Committee for the October 27, 2011 Board meeting to authorize the General Manager to enter into an agreement with LSL, for AUP services for a five-year period from July 1, 2012 through June 30, 2017, for a not-to-exceed amount of \$291,605. (Action)

3. Presentation and Discussion of Preliminary results of Audit Fieldwork (LSL)

**III. ADJOURNMENT**

Doria F. Lore  
Clerk of the Board

**NOTE:** This meeting is called as an Audit Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.



September 23, 2011

**Attention: Audit Committee**

**Approve the Auditor Selection Committee's recommendation of McGladrey & Pullen, LLP (MP) for independent auditing services for a five-year period (audit years 2012-2016) for a not-to-exceed amount of \$427,650 and direct staff to prepare an action item for consideration of the Board at its regular meeting in October. (Action)**

**Auditor Selection Committee's Recommendation:**

To approve the recommendation of MP as the Water Authority's and QSA JPA's independent auditors. To authorize staff to prepare a contract approval memo from the Audit Committee for the October 27, 2011 Board meeting to authorize the General Manager to enter into an agreement with MP, for independent audits for a five-year period from April 1, 2012 through March 31, 2017, for a not-to-exceed amount of \$427,650. (Action)

**Fiscal impact**

Funds for financial audits are available in the approved multi-year budget in the Finance Department for Fiscal Years 2012 and 2013. Additional funds will be requested during subsequent bi-annual budget processes. Included in the not-to-exceed amount are reimbursable audit fees to the Water Authority of \$65,650 for the QSA JPA.

**Background**

The Board approved the establishment of an Audit Committee in August 2009 driven by the desire to separate oversight responsibilities for the audit function from the Administrative and Finance Committee, which is responsible for oversight of financial policy such as budgeting, financing, rates and charges. One of the key roles of the Audit Committee includes the responsibility for recommending selection and providing a line of communication with the accounting firm assigned to perform the annual audit. This includes the Committee approving the issuance of a Request for Proposals (RFP) for Audit Services before it is released and having the Committee Chair (or a designated representative) participate on the selection panel.

At the April 27, 2011 meeting the Audit Committee unanimously approved 1) not moving forward with the award of the audit services contract to MHM, 2) the draft RFP for a five-year audit services contract, 2) allowing the separation of RFPs; one for independent audit services and the other for agreed-upon-procedure services, 3) allowing the current audit firm, LSL as well as MHM to submit a response to the both RFPs, and 4) appointed Director Wilson to serve on the selection panel.

LSL, the Water Authority's current auditors, have performed the audits for the fiscal-year ends 2006 through 2010, and are currently performing the audit for fiscal-year end 2011. McGladrey & Pullen, LLP is a Top 5 National CPA firm as ranked by Accounting Today.

*Previous Board and Committee Actions:*

*On April 27, 2011, the Audit Committee approved 1) not moving forward with the award of the audit services contract to Mayer, Hoffman, McCann P.C. (MHM), 2) the draft RFP for a five-year audit services contract, 2) allowing the separation of RFPs; one for independent audit services and the other for agreed-upon-procedure services, 3) allowing the current audit firm, LSL as well as MHM to submit a response to the both RFPs, and 4) appointed Director Wilson to serve on the selection panel.*

*On January 27, 2011, the Board approved rescinding the retention of the MHM five year audit contract for one year pending the outcome of MHM's peer review. In addition, the Board authorized staff to retain LSL, the current auditors, to perform the FY 2011 financial audits of the Water Authority and the QSA JPA, and any needed Agreed Upon Procedures services for an amount not to exceed \$131,467.*

*On January 12, 2011, the Audit committee reconsidered the pending contract with MHM pending the outcome of their peer review. The item was moved for action at the full board meeting on January 27, 2011.*

*On October 28, 2010 the Board approved the Audit Committee's recommendation of MHM as independent auditor for a five-year period covering both the financial audits of FY2011-FY2016 and Agreed Upon Procedures (AUP) services.*

*On September 9, 2010, the Audit Committee voted to approve the Selection Committee's recommendation of MHM as independent auditor, and to recommend the selection to the full Board of Directors at its regular meeting in October, 2010.*

**Discussion**

The Request for Proposals (RFPs) for Independent Audit and AUP Services was advertised and issued on June 21, 2011, with a pre-proposal meeting held on July 5, 2011. 32 firms received notifications through their registration on the Network, the Water Authority's collaborative online vendor registration system. In addition, the RFP was advertised in the Daily Transcript. Seven firms submitted proposals for Independent Audit services by the deadline of July 18th. The responding firms included Brown Armstrong Accountancy Corporation; Baker Tilly Virchow Krause, LLP.; Crowe Horwath, LLP.; Macias Gini & O'Connell, LLP; Mayer Hoffman McCann P.C.; McGladrey & Pullen, LLP.; and Maze & Associates.

On July 25, 2011 the San Diego County Water Authority completed the evaluation of proposals which had been received in response to the RFP for Audit Services. Respondents were evaluated using selection criteria, which included qualifications and experience of their staff, enterprise

fund audit experience, audit plan and approach, continuity of staff and commitment, Single Audit experience, and municipal bond and official statement review experience.

Based on staff's evaluations and ratings of the proposals, a short-list of three firms was developed and interviews were conducted on Monday, August 1<sup>st</sup>. The three firms interviewed for independent audit services were McGladrey & Pullen, LLP; Brown Armstrong Accountancy Corporation; and Macias Gini & O'Connell, LLP (MGO). The interview panel and Auditor Selection Committee included Director of Finance Eric Sandler along with four CPA's: Audit Committee Member; Director Doug Wilson, and staff included Controller Rod Greek; and Accounting Supervisors Yollie Cerezo and Jeanette Ziomek.

After the evaluation of the RFP's and the completion of oral interviews, the Auditor Selection Committee is recommending the selection of McGladrey & Pullen, LLP (MP) to provide independent audit services for fiscal-year ends 2012 through 2016 (work for 2016 is completed during FY2017). MP is a top 5 national public accounting firm with more than 90 offices throughout the United States that direct the resources of approximately 8,000 accounting and audit professionals. In California, MP has offices in San Francisco, Irvine, Los Angeles, San Jose, Ontario and San Diego with more than 350 accounting and audit professionals.

One third of MP's audit professionals in California have experience serving local government entities. The engagement team has extensive experience in auditing the financial statements and compliance requirements of numerous utility enterprises, including southern California agencies such as Carlsbad, Western Municipal Water District, Orange County Sanitation District, Burbank, Riverside, Glendale, and La Habra. Lead Partner, Mr. Jeffrey Altshuler, has over 27 years of public accounting experience, most of which has focused on governmental engagements. Mr. Altshuler has also participated as a reviewer in the Comprehensive Annual Financial Report review program sponsored by the GFOA.

Prepared by:	Rod Greek, Controller
Reviewed by:	Eric L. Sandler, Director of Finance/Treasurer
Approved by:	Sandy Kerl, Deputy General Manager



September 23, 2011

**Attention: Audit Committee**

**Approve the Auditor Selection Committee's recommendation of Lance, Soll & Lunghard, LLP (LSL) for agreed-upon procedures (AUP) services for a five-year period for a not-to-exceed amount of \$291,605 and direct staff to prepare an action item for consideration of the Board at its regular meeting in October. (Action)**

**Auditor Selection Committee's Recommendation:**

To approve the recommendation of LSL as the Water Authority's AUP service provider. To authorize staff to prepare a contract approval memo from the Audit Committee for the October 27, 2011 Board meeting to authorize the General Manager to enter into an agreement with LSL, for AUP services for a five-year period from July 1, 2012 through June 30, 2017, for a not-to-exceed amount of \$291,605. (Action)

**Fiscal impact**

Funds for AUP services are available in the approved multi-year budget in the Finance Department and the Water Resources Department (Local Water Supply Development - LWSD) for Fiscal Years 2012 and 2013. Additional funds will be requested during subsequent bi-annual budget processes. AUP services, other than LWSD, will include Capacity and Infrastructure Access charge review as well as contract compliance and internal control review.

**Background**

The Board approved the establishment of an Audit Committee in August 2009 driven by the desire to separate oversight responsibilities for the audit function from the Administrative and Finance Committee, which is responsible for oversight of financial policy such as budgeting, financing, rates and charges. One of the key roles of the Audit Committee includes the responsibility for recommending selection and providing a line of communication with the accounting firm assigned to perform the annual audit. This includes the Committee approving the issuance of a Request for Proposals (RFP) for Audit Services before it is released and having the Committee Chair (or a designated representative) participate on the selection panel.

At the April 27, 2011 meeting the Audit Committee unanimously approved 1) not moving forward with the award of the audit services contract to MHM, 2) the draft RFP for a five-year audit services contract, 2) allowing the separation of RFPs; one for independent audit services and the other for agreed-upon-procedure services, 3) allowing the current audit firm, LSL as well as MHM to submit a response to the both RFPs, and 4) appointed Director Wilson to serve on the selection panel.

*Previous Board and Committee Actions:*

*On April 27, 2011, the Audit Committee approved 1) not moving forward with the award of the audit services contract to MHM, 2) the draft RFP for a five-year audit services contract, 2) allowing the separation of RFPs; one for independent audit services and the other for agreed-upon-procedure services, 3) allowing the current audit firm, LSL as well as MHM to submit a response to the both RFPs, and 4) appointed Director Wilson to serve on the selection panel.*

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*On September 9, 2010, the Audit Committee voted to approve the Selection Committee's recommendation of MHM as independent auditor, and to recommend the selection to the full Board of Directors at its regular meeting in October, 2010.*

**Discussion**

The Request for Proposals (RFPs) for AUP Services was advertised and issued on June 21, 2011, with a pre-proposal meeting held on July 5, 2011. 140 firms received notifications through their registration on the Network, the Water Authority's collaborative online vendor registration system. In addition, the RFP was advertised in the Daily Transcript. Eight firms submitted proposals for AUP services by the deadline of July 18th. The responding firms included AKT LLP; Baker Tilly Virchow Krause, LLP; Crowe Horwath; KNL Support Services; Lance, Soll & Lunghard, LLP; McGladrey & Pullen, LLP; Mayer Hoffman McCann P.C.; and Sotomayor & Associates, LLP submitted proposals for AUP services.

On July 25, 2011 the San Diego County Water Authority completed the evaluation of proposals which had been received in response to the RFP for Audit Services. Respondents were evaluated using selection criteria, which included qualifications and experience of their staff, enterprise fund accounting experience, audit plan and approach, continuity of staff and commitment, and experience with AUPs,

Based on staff's evaluations and ratings of the proposals, a short-list of three firms was developed and interviews were conducted on Monday, August 1<sup>st</sup>. The three firms interviewed for AUP services were our current auditor Lance, Soll & Lunghard, LLP; McGladrey & Pullen,

LLP; and Mayer Hoffman McCann P.C. The interview panel and Auditor Selection Committee included Director of Finance Eric Sandler along with four CPA's: Audit Committee Member; Director Doug Wilson, and staff included Controller Rod Greek; and Accounting Supervisors Yollie Cerezo and Jeanette Ziomek.

After the evaluation of the RFP's and the completion of oral interviews, the Auditor Selection Committee is recommending the selection of Lance, Soll & Lunghard, LLP (LSL) to provide agreed-upon procedures services for fiscal-year ends 2012 through 2016 (work for 2016 is completed during FY2017). LSL is a local firm and has three offices located in Orange County, Los Angeles County and the Temecula Valley. They have seven partners, seven managers and over twenty professionals.

LSL is uniquely positioned to be retained as our AUP firm. Their experience over the past 6 years will enable them to employ lessons learned to enhance their services to the Authority while at the same time provide the services more efficiently than firms without this prior experience.

Prepared by:	Rod Greek, Controller
Reviewed by:	Eric L. Sandler, Director of Finance/Treasurer
Approved by:	Sandy Kerl, Deputy General Manager